Financial Analysis

of the

"Housing Act of 2002"

Prepared for:

Office of the Deputy Mayor for Planning & Economic Development
District of Columbia

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EXECUTIVE SUMMARY

In the Spring of 2001, Mayor Anthony A. Williams submitted the "Housing Act of 2002" to the Council of the District of Columbia, and on April 19, 2002 it became law. The law includes 10 major initiatives aimed at improving housing and neighborhood conditions across the city. The Act provides incentives or funding that will, over the next 10 years,

- build or rehabilitate 7,512 affordable housing units,
- preserve 5,173 existing affordable units,
- keep 174 to 522 low-income homeowners in their homes,
- reinvest in Enterprise Zones and neighborhoods impacted by abandoned and deteriorated housing,
- assist 3,464 lower-income households to buy houses,
- preserve and rehabilitate 344 historic units in targeted historic districts, and
- construct 6,801 units of new multi-family housing across the city, with particular emphasis on Downtown and the area North of Massachusetts Avenue. These initiatives are intended to attract more middle-income households to the city to support local businesses and pay taxes that fund District services.

Costs and Revenues

The Act will have a net impact of generating $95.5 million in new revenue (in current year dollars) over the next 10 years, discounted at the District's cost of money (4.5 percent) to 2002. The cost over 10 years is $222.7 million in current year dollars, with $62.1 million in the first four years.

The new housing constructed and the new households attracted to the city will generate revenues that more than offset the 10-year costs. Households new to the District will pay property, income and sales taxes. Building permits, recordation taxes and real estate transfer taxes will generate additional revenues for the District. Over the 10-year period, the District will receive $350.8 million in revenues from new households brought to the District by the housing incentives provided in this Act, yielding net revenues of $128.1 million.

The impact on the District budget depends a great deal on the share of the households in new and rehabbed housing made possible by this legislation that are new to the District. The base case, referred to as "medium" in the report tables, will yield revenues in excess of direct costs with a 2002 net present value of $95.5 million. To test the sensitivity of the results to the share of new households, this analysis has calculated the Act's impact based on different estimates of new households coming to the District in response to the Act's housing incentives. Varying by Title of the Act, the share of households new to the city ranges from 20 to 65 percent.

In the worst case with a low share of households new to the District, the net present value of revenues could be as low as $45.3 million. Under the best case with a higher share of households coming from outside the city, the net present value could reach as high as $145.0 million.

Total Net Impact to the Proposed Budget by Cost and Revenue				
	4-Year Total FY 2002-2005		10-Year Total FY 2002-2011	
	(In Thousands of Inflated Dollars)			
Foregone Revenues	$	(61,755)	$	(221,878)
Expenditures		(302)		(852)
Total Costs	$	(62,057)	$	(222,730)
New Revenues				
Real Property Taxes	$	1,890	$	26,488
Income Taxes		42,889		240,558
Sales Taxes		5,969		23,885
Utility Taxes		1,199		7,320
Building Permit Fees		18,913		25,053
Transfer Taxes		3,254		8,866
Recordation Taxes		11,940		18,667
Total New Revenues	$	86,054	$	350,837
Total General Fund Revenue/(Cost)	**$**	**23,997**	**$**	**128,107**
Net Present Value of Net Revenue/(Cost) in 2002 by Percent of Households New to the District				
Low (10%-50% New Households)				**$45,278**
Medium (20%-65% New Households)				**$95,528**
High (30%-80% New Households)				**$144,984**

Taken by individual Title of the Act, the greatest net cost is for tax credits protecting low-income, long-term homeowners and for the Housing Production Trust Fund. The Title IV protections, which keep very-low-income homeowners who have lived in their homes for at least seven years from paying property taxes more than 5.0 percent higher than their previous year's taxes, have a net cost of $9.1 million over the next 10 fiscal years. The dedicated funding for the Housing Production Trust Fund (Title V) will cost the General Fund $109.9 million more than it will generate in new tax revenues. However, tax abatements for new multi-family housing, primarily in Downtown and the North of Massachusetts Avenue area, will bring large numbers of new residents to the city whose taxes will more than offset the cost of the abated taxes.

Total Net Impact to the Proposed Budget by Title			
Title	Description	4-Year Total FY 2002-2005	10-Year Total FY 2002-2011
		(In Thousands of Inflated Dollars)	
I	Due Process Demolition	$ 154	$ 754
II	Notice of Subsidy Expirations	149	(2,415)
III	Historic Housing Tax Credit	(2,858)	841
IV	Low-Income Homeowner Protection	(2,454)	(9,118)
V	Housing Production Trust Fund	(45,297)	(109,875)
VI	New Residential Tax Abatement	56,510	188,330
VII	Enterprise Zone Homebuyers	15,947	39,169
VIII	Modifications to Homestead Program	263	1,987
IX	Employer-Assisted Purchase	1,583	18,434
X	Acquisition & Disposal	-	-
	Total General Fund Revenue/(Cost)	**$ 23,997**	**$ 128,107**

Distribution of Housing Benefits

Of the 23,600 households benefiting directly from this legislation, 19 percent will be households with extremely low incomes (at or below 30 percent of the Area Median Income, or AMI), and 37 percent will have very low incomes (between 30 and 50 percent of AMI). Low-income households (those with incomes between 50 and 80 percent of AMI) will represent 23 percent of the total households. Tax abatement for new housing in Downtown and the North of Massachusetts Avenue (NoMa) area, historic preservation tax credits and enterprise zone homebuyer tax abatement provisions will attract 3,331 new middle-income households (those with incomes between 81 and 120 percent of AMI). An additional 1,689 market-rate units developed in Downtown and the NoMa area will be occupied by households with higher incomes.

The Act directs the majority of the District's subsidies, calculated as General Fund expenditures or foregone taxes, to extremely-low-, very-low- and low-income households. Twenty-eight percent of the subsidies for housing assistance are directed toward households with incomes at or below 30 percent of income with another 29 percent directed to very-low-income households with incomes between 31 and 50 percent of the area median family income. The subsidies directed to middle- and higher-income households will be more than repaid by the income, sales and property taxes paid by these new residents.

Households Served	10-Year Total	Percent of Total	10-Year Cost ** (000s)	Percent of 10-Year Cost	10-Year Cost per Household	Net (Cost)/ Revenue per Household
Total Households Served						
Extremely-Low-Income (<30% of AMI*)	4,560	19%	$ 58,831	26%	$ 12,902	$ 1,198
Very-Low-Income (31%-50% of AMI)	8,654	37%	$ 72,352	32%	$ 8,361	$ 1,077
Low-Income (51%-80% of AMI)	5,359	23%	$ 58,742	26%	$ 10,961	$ 6,134
Middle-Income (81%-120% of AMI)	3,331	14%	$ 21,953	10%	$ 6,591	$ 33,072
Higher-Income (>120% of AMI)	1,689	7%	$ 10,855	5%	$ 6,427	$ 47,465
Total	23,593	100%	$222,733	100%	$ 9,441	$ 5,430
Households in New or Rehabilitated Housing Units						
Extremely-Low-Income (<30% of AMI*)	1,143	10%	$ 45,769	28%	$ 40,043	$ 3,754
Very-Low-Income (31%-50% of AMI)	1,629	15%	$ 48,569	29%	$ 29,815	$ 5,508
Low-Income (51%-80% of AMI)	3,228	30%	$ 40,322	24%	$ 12,491	$ 5,815
Middle-Income (81%-120% of AMI)	3,231	30%	$ 20,903	13%	$ 6,470	$ 26,758
Higher-Income (>120% of AMI)	1,689	15%	$ 10,855	7%	$ 6,427	$ 47,465
Total	10,920	100%	$166,418	100%	$ 15,240	$ 7,438

*AMI is the Metropolitan Area's Median Family Income.
**Includes foregone taxes and direct expenditures. Excludes revenues that offset these costs.

Other Benefits

Over the 10-year projection period, the Act's provisions will create more than 8,700 one-year construction jobs, an average of 871 construction jobs per year. Economic multipliers estimated by the U.S. Bureau of Economic Analysis indicate that those construction jobs will support an additional 208 spin-off jobs in other businesses throughout the District economy annually.

Assumptions

The benefits analysis is conservative in that it includes only direct taxes (property, income, sales and utility taxes) paid by the residents of housing created or rehabilitated under this Act. While a key rationale for the Mayor's housing initiative is the need to strengthen neighborhoods currently hampered by vacant and deteriorated units or lack of reinvestment, the impact estimates do not include the resulting improvement in the value of surrounding properties, enhanced sales by retailers located in revitalized neighborhoods or reduced vacancies in nearby properties. This report analyzes the impacts of the Act as enacted, assuming full funding.

While new households bring with them an increase in demand for public services, existing staff can meet many of their service needs. This analysis includes no cost projections for public schools or District departments that could experience increased costs as a result of a population increase. Some of the new property, income and sales tax revenues will need to be devoted to such costs.

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